

## Good Morning Asia - 19 March 2019

The investors are likely to remain on the sidelines as the US Fed decides the future policy course and the Brexit uncertainty rises

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Source: Shutterstock  
Theresa May, UK Prime Minister

### Now what?

Our UK economist, James Smith, must wish he was covering somewhere a little less exciting these days, as the UK Parliament's speaker John Bercow, effectively ruled out a third try for Theresa May at getting her draft exit bill over the line this week. While James didn't think that it would pass this time anyway, even with some cracks emerging in the eurosceptic European Research Group (ERG), this new twist adds some further complications to the arithmetic of the probability of a no deal exit.

For all the gory details, [check out James' latest note](#). But the short version seems to be that we will now move to indicative votes on what Parliament might actually be prepared to support, and if (still seems a long shot) any of these gets a majority, then it sets up the UK for a longer delay while preparations for this are made.

The one option that could quickly be sorted out, would be if the UK abandoned its attempts to leave the EU Customs Union for a sort of Brexit in name only (BINO), which would remove all the Irish backstop issues and could fairly quickly be signed up by both the UK and EU. But we'll just have to see how the voting falls.

## Australian rates

Yet another story today raises the prospect of some rate easing relief for the Australian economy, with a "per capita" recession being invoked as a substitute for the real thing (which hasn't happened since 1991). Forecasters have been rushing to switch their view from "rates on hold for a long time but with an eventual hike", to "rate cuts" ever since RBA Governor Lowe indicated that the risks to the outlook were two way.

The latest suggestion that a per capita recession adds to arguments for a cut, seems a bit flimsy in our view. But if you accept that it advances the case for a rate cut, you should probably also acknowledge that since the end of last year, 3-m bank bill swap rates are down almost 25bp - equivalent to a cut. Now it simply remains for banks to pass on those easier funding rates in lower business lending rates and mortgages, just as they raised them when BBSW was rising amidst flat RBA cash rates.

I don't think this will be long in coming. And when it happens, it does most of the RBA's work for it. For now, we're sticking with "no cuts" for the time being. Though we'll be reading the minutes of the last meeting due out shortly to see if we need to revise this view. The risks to our forecast do seem to be shifting to the downside.

## Asia Day ahead

Besides the RBA minutes, Australia also offers us house price data for 4Q18. Our rates forecast will be hurt by any sign that the rate of house price decline is accelerating quarter on quarter, and will be strengthened by anything that suggests the decline is moderating or remains orderly.

Otherwise, most of today's interest will lie in G-7 releases. UK labour market data, Germany's ZEW survey and US durable goods orders are all on the calendar.

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### EM Space: The FOMC meets and the market waits

- **General Asia:** Traders will likely stay defensive with the Fed going into a two-day policy meeting later on Tuesday. The markets are pricing in a dovish pause from the Fed given prevailing market conditions.
- **Malaysia:** Vehicle sales contracted by 1.8% YoY in February but production growth improved to 4.8% in the month after a steep, 19% contraction in the previous month. Data sends mixed signals about the overall manufacturing sales and output growth in the last month. Our view of a continued slowdown in GDP growth in the current quarter to 4.2% from 4.7% in 4Q18 remains on track.
- **Philippines:** The Philippines recorded a surprise January budget surplus as revenue rose steadily at 7% but expenditures before interest payments were down more than 10%. With the Congress debating the legality of the 2019 budget, the government is operating under the 2018 budget and thus spending has been curtailed, leading to the surplus. This will lead to slower growth in the first half of the year.

### What to look out for: central bank super Thursday

- Germany ZEW expectations (19 March)
- US factory orders and durable goods (19 March)

- Philippines BOP (19 March)
- Thailand BoT meeting (20 March)
- US FOMC meeting (20-21 March)
- Philippines BSP meeting (21 March)
- Taiwan CBC meeting (21 March)
- BoE meeting (21 March)
- US initial jobless claims (21 March)
- Indonesia BI meeting (21 March)

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